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IN THE

# Supreme Court of the United States

October Term, 1946
No. 755

IRA J. McCULLOUGH,

*Petitioner,*

*vs.*

KAMMERER CORPORATION, a Corporation, and BAASH-ROSS TOOL COMPANY, a Corporation,

*Respondents.*

## RESPONDENTS' BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

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## RESPONDENTS' BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

### Statement of the Case.

Respondents filed two suits in the United States District Court for the Southern District of California, alleging patent infringement by your petitioner herein. These suits were consolidated for trial. Interlocutory judgments were entered therein on June 28, 1941 [R. III, pp. 118-122, 123-6]. From these interlocutory judgments petitioner appealed to the Circuit Court of Appeals for the Ninth Circuit. That Court, on October 18, 1943, entered its decree of affirmance, thereafter withholding its mandate until this Court had determined the writ of certiorari granted by

this Court. In dismissing the writ of certiorari, this Court said:

> "Thus the only question for which we granted certiorari is one not properly raised, litigated or passed upon below. (Citing cases.) The grounds asserted for the allowance of certiorari are inadequately supported by the record, and the writ is therefore dismissed."

Thereafter, petitioner filed in the Circuit Court of Appeals an alternative "Motion for Modification of Appellate Court Decree or for Permission to Apply to the District Court." After argument, the Court of Appeals entered its *per curiam* order (148 F. (2d) 525) by which:

> "Without passing upon the merits of appellant's contention respecting the effect on the public interest of appellees' license agreement, and without altering our judgment affirming the judgments of the District Court as to the validity of the patent and its infringement, it is ordered that the judgment of this court be otherwise amended to provide that the cause be remanded to the District Court and that that court may entertain a motion or motions based upon such contention to modify or set aside its order or orders for such damages and accountings thereof, and take such action thereon as it may determine."

Pursuant to this permission, petitioner filed a "Motion for Modification of Interlocutory Judgments, to Stay Accounting, and for Final Judgments Dismissing Complaints" [R. I, pp. 2-4]. Petitioner presented to the District Court a proposed "Supplemental Interlocutory Judgment" [R. I. pp. 12-15].

Exercising the permission granted to it by the foregoing order of the Court of Appeals, the District Court heard

and denied this Motion [R. I, p. 26] and entered the following order: "Motion for entry of Supplemental Interlocutory Judgment is denied, as the motion to modify the judgment was denied, the original judgment stands" [R. I, p. 15]. To comply with a holding of the Court of Appeal in *Mateas v. Fred Harvey,* 146 F. (2d) 989 (C. C. A. 9), the District Court made Findings of Fact and Conclusions of Law [R. I, pp. 16-26.] No new or further evidence was offered [R. I, pp. 18-19], and except for the record of motions and proceedings had in the case, the record stands identical with the record upon which this Court dismissed certiorari.

From this denial of petitioner's motions, petitioner gave Notice of Appeal to the Circuit Court of Appeals. By a divided court the Circuit Court of Appeals dismissed this appeal for want of jurisdiction, the appeal order not being from a final decree within the purview of *§227a of the Judicial Code.*

After giving notice of such appeal, petitioner then filed in the Court of Appeals a "Motion to Modify or Set Aside Decree, Recall Mandate and Determine Patent Misuse" [R. VII, pp. 1170-1]. The grounds of this Motion were that the Court of Appeals in its opinion filed March 14, 1945 [R. VII, pp. 1165-7] and Decree [*Id.*, pp. 1168-9] "intended to affirm the District Court only as to patent validity and infringement *leaving open* the question of patent misuse and right to accounting which question this Court intended that the District Court should initially determine, *meanwhile keeping the appeal open so this Court might review* the decision of the District Court in that respect, and finally enter its decree on all defenses."

In petitioner's points and authorities in support of the motion, petitioner urged that:

> "The procedure which this Court apparently intended to follow as manifested in its opinion of March 14, 1945 (148 F. (2d) 525) was to hold the appeal open until the question of patent misuse could first be determined by the District Court. * * *" [R. VII, p. 1171.]

The decree of the Court of Appeals [R. VII, pp. 1168-9] contains no words reserving jurisdiction of the case. Respondents' attorney wired the Court of Appeals agreeing to submission of this motion without argument, stating:

> "* * * Will you please advise Court that my position on motion is that if the Court intended by its original order to reserve jurisdiction on former appeal to review District Court decision on alleged patent misuse defense then Appellee has no objection to court so holding. However, in absence of any indic(a)tion in original order to that effect, I am of the opinion that Court has now no power to entertain motion to recall mandate. (Citing cases.) * * *" [R. VII, p. 1176.]

Thus the significance is clear that the Court of Appeals' order denying such motion is based upon its construction of its decree [R. VII, pp. 1168-9] that it did not intend to reserve jurisdiction on the case so that it "might review the decision of the District Court in that respect" (alleged patent misuse defense) as asserted by petitioner [R. VII, pp. 1170-1]; that it was not the intention of the Court of Appeals to "hold open the appeal until the patent misuse could be first determined by the District Court" [R. VII, p. 1171]; and that the Court of Appeals did not order the "reopening of the case" (Pet. p. 7).

## Summary of Argument.

The jurisdiction of the Court of Appeals being statutory, no statute authorized the Court of Appeals to consider the appeal.

The Court of Appeals having affirmed the interlocutory decrees and entered its decree of affirmance without reserving jurisdiction of the case, the Court of Appeals lacked jurisdiction of the case to hear or act upon petitioner's motion.

No misuse of the patent is established by the record in this case.

## Petitioner's Appeal to the Court of Appeals Was Without Statutory Authorization.

The Court of Appeals lacked authority to hear or determine petitioner's appeal. The petition herein (Pet. pp. 3-4) asserts jurisdiction of the appeal by the Court of Appeals under Section 129 of the Judicial Code, 43 Stat. 937, 44 Stat. 1261, 28 U. S. C. §§277, 277a. The Reilly and Stone patent expired April 18, 1944 (323 U. S. 328), and the injunction expired therewith.

No new decree, final or otherwise, was entered by the District Court. "A denial of a motion to modify a judgment and a motion to dismiss a complaint is not a final decree within §227a" [Majority Opinion Court of Appeals, R. II, p. 62; 156 F. (2d) 345]. The District Court specifically refused to enter "a supplemental interlocutory judgment" [*Id.*] or to modify the affirmed judgment, or to dismiss the suits [R. I. p. 26]. "* * * the original judgment stands" [Order District Court, R. I. p. 15]. This judgment was entered June 28, 1941 and petitioner appealed to the Court of Appeals therefrom. Petitioner "as-

signed no error with respect to" the contended illegal use of the patent, and the Court of Appeals did not consider the question (323 U. S. 328). The statute does not authorize a second appeal. Furthermore, petitioner's appeal taken July 3, 1945 [R. I, pp. 31, 34] was not within thirty days "from the entry of such decree," as required by §227a.

There is no conflict of decision between *Catlin v. United States*, 344 U. S. 229, and the decision of the Court of Appeals here dismissing the appeal for want of jurisdiction.

The petition herein erroneously asserts that the Court of Appeals "has decided an important question of federal law" (Pet. p. 9). Precisely what is such question remains in doubt. Is it the question of the Court of Appeals' jurisdiction to entertain the appeal? Or is it the asserted defeating of "the policy of this Court in facilitating resistance to patent abuse"? Without jurisdiction in the Court of Appeals of such appeal, such court was without jurisdiction of the case. Having entered its decree [R. VII, pp. 1168-9] and issued its mandate of affirmance thereon, without reserving jurisdiction of the case, such court could not be reinvested with jurisdiction of the case by petitioner's motion. The Court was without power to recall its mandate. (*Waskey v. Hammer*, 179 Fed. 273 (C. C. A. 9); *Miocene Ditch Co. v. Campion M. & T. Co.*, 197 Fed. 497 (C. C. A. 9); *National Biscuit Co. v. Kellogg*, 96 F. (2d) 873 (C. C. A. 3); *American Safety Razor Corp. v. International Safety R. Corp.*, 61 F. (2d) 479 (C. C. A. 3); *Casey v. Sterling Cider Co.*, 15 F. (2d) 52 (C. C. A. 1); *Hart v. Wiltsee*, 25 F. (2d) 863 (C. C. A. 1).).

Likewise the Court of Appeals was without jurisdiction of the case to hear and determine petitioner's "Motion to Modify or Set Aside, Recall Mandate and Determine Patent Misuse" [R. VII, pp. 1170-71].

**The Court of Appeals Had No Jurisdiction of the Case and Properly Denied Petitioner's Motion.**

Petitioner, pursuant to the permission of the mandate of the Court of Appeals, moved the District Court to modify the interlocutory judgments, to stay the accounting and for final judgments dismissing the suits with costs to defendants. Notwithstanding that such motion [R. I, pp. 2-4] did not comply with the requirements of R. C. P. Rule 59 as a motion for new trial, the District Court offered [R. I, p. 19] petitioner a full opportunity to present any additional evidence in support of the motion. No additional evidence was produced. The District Court made findings of fact and conclusions of law [R. I, pp. 20-26] to comply with the possible intendment of the decision of the Court of Appeals regarding findings upon motion (*Mateas v. Fred Harvey*, 146 F. (2d) 989). The District Court found that "By this arrangement and by the license agreement, the Kammerer Corporation, the owner of the inventions and patents, and Baash-Ross Tool Company engaged in a common enterprise in the nature of a joint venture in the exploitation of the use of the Kammerer and Reilly and Stone inventions for their mutual advantage" (Finding No. 1); that "It is not established that the covenants contained in Paragraph 3 (of the license agreement) have been or are detrimental to the public interest" (Finding No. 6), or that "Plaintiffs have attempted to fix prices upon anything not covered by the patent in suit" (Finding

No. 7); that the mutual covenants of paragraphs 11 and 12 of the license agreement were "proper and such only as to offer fair protection to the parties in their common enterprise. Such covenants merely bound the parties to a course of conduct corresponding to that required of the parties to a common enterprise and which if not expressed would be implied. There is no restriction upon free competition. Competitors of Baash-Ross Tool Company were free to sell, lease or otherwise dispose of their fishing tools to anyone upon any terms or prices. Competitors were free to compete for the customers of Baash-Ross Tool Company by offering the use of their tools at lower prices or on better terms than such customers secured from Baash-Ross Tool Company. These covenants were not in restraint of trade or illegal" (Finding No. 8); that it is not established that such covenants have been or are detrimental to the public interest (Finding No. 9), or that plaintiffs have attempted to suppress the use of competing devices (Finding No. 10); or ever attempted in any manner whatsoever to restrict the public use of non-infringing competitive devices (Finding No. 11), or that the asserted restrictive covenants in the license agreement are or have been in any manner detrimental to the public interest (Finding No. 12); and that "Analyzing the license agreement on its face, the covenants are all of a character which the owner of a patent has a right to enter into with one whom he makes an exclusive licensee, aiming at the exploitation of the invention and were reasonably necessary to protect the mutual interests of the parties engaged in the common enterprise" (Finding No. 15). The motion was addressed to the discretion of the District Court. Its denial necessarily followed the findings of the District Court.

## No Misuse of the Patent Is Established by the Record in This Case.

The patent having long since expired, no question of public interest remains. Respondents' right to recover from petitioner for his infringement arises under Sec. 4921 R. S. (U. S. C. Title 35, §70), as amended by Public Law 587—79th Congress, approved August 1, 1946. A charge that a plaintiff has engaged in restraint of the trade, even if true, is no defense to an action brought by plaintiff to enforce a statutory right.

In view of the former decision of this Court and the findings of the District Court, no misuse of the patent is established. The sole purpose and object of the license agreement was to afford protection to the parties interested in the ownership of the Reilly and Stone invention. The law does not forbid or render illegal the making of normal and usual contracts by which persons may seek to enhance their trade and make their occupations gainful. The license agreement contains nothing which would operate to the prejudice of the public interest or in restraint of trade.

By the license agreement respondents engaged in a common enterprise in the nature of a joint venture. It was entirely competent for the persons interested in the Reilly and Stone invention to enter into such an arrangement for the manufacture and operation of the tool and to stipulate that one of them should alone conduct the business. It was a common and not an illegal stipulation in such an arrangement to provide that neither party shall compete with the venture for his own account. Indeed such a stipulation is implied if not expressed. The stipulation not to compete is also based upon the duty of the exclusive licensee to ex-

ploit the invention in good faith. Such a stipulation does not tend to restrain trade; to the contrary, it precludes suppression of the invention and assures the public of the benefit of its use.

The grant of the license to manufacture and use, but not to sell, was entirely proper. The object of these provisions of the license was not to impose any hardship upon the public but was merely to provide for the manner in which Baash was to conduct the business. The Reilly and Stone tool was a fishing tool. There is a use for a tool of this kind only if and when something goes wrong during the drilling of a well. It has never been the custom in the oil industry to buy special fishing tools. The custom is when such a fishing tool is needed to send to a service concern maintaining a stock of such tools for the particular tool required and a man skilled to operate it. In contracting for the manufacture and use, but not the sale, of the Reilly and Stone tool, the parties were following the usual and ordinary practice in the trade. Such a contract is not illegal. In view of the nature of the Reilly and Stone tool, to have deprived the inventors of sharing in the use of the tool, would have precluded them from obtaining an adequate reward for their invention. It is well settled that an inventor may look to the use of his invention as distinguished from its manufacture or sale for his reward. Section 4884 of the Revised Statutes (U. S. C. Title 35, Sec. 39) expressly provides for this. The exclusive rights to make, use and sell granted by a patent are in their nature independent of each other. It is optional with the owner of the patent to divide them, and to bestow the three, or any two of them, on the same licensee.

The parties to the license agreement were entitled to set the price at which the Reilly and Stone tool would be fur-

nished and operated. The licensor was to receive "a royalty of fifty percent (50%) of the gross earnings" [R. I, p. 6] and was therefore equally interested with the licensee in the amount charged. To protect the licensor and licensee it was necessary to set the price. Doing so in no manner tended to create a monopoly or restrict competition. This was merely an instance of the parties to a common venture setting the price for their wares. There is no question here of competitors conspiring between them to fix prices under the guise of a patent or of a patent holder offering to fix prices as an inducement to the trade to recognize his patent and take licenses under it.

There is nothing in the license agreement attempting to extend the scope of the patent monopoly. No restrictions whatever are imposed upon those who may patronize the patented invention, conditioning the use of the invention upon anything of any nature. The public may simply rent the use of the tool and the services of the trained operator to run it. There has been no misuse of the patent and the patent privilege has not been used contrary to the public interest. The decisions of this court holding that suit may not be maintained for infringement of a patent that has been misused or that has been used contrary to the public interest are therefore not applicable here.

It is respectfully submitted that the petition should be denied.

Respectfully submitted,

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